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ABSTRACT

During a symposium on ensuring student loan repayment, writers were recording best practices and ideas for improvements in student loan programs. The chapters of this handbook are organized in the same way that the symposium discussions occurred. Chapter 1 summarizes recent trends in student loan defaults and the general themes that emerged during the symposium. Chapters 2 through 4 capture the nest practices and creative ideas the symposium experts recommended. Chapter 2 focuses on the period before a student enrolls in college, while chapter 3 looks at the period between enrollment and repayment, and chapter 4 addressees loan repayment. Chapter 5 summarizes the major symposium theme for improving the student loan programs. Specific tips and program examples are highlighted to emphasize the efforts of given institutions. An appendix contains an annotated bibliography of 22 sources. (SLD)

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Ensuring Student Loan Repayment

A National Handbook of Best Practices

Based on the Student Loan Repayment Symposium

October 2–4, 2000

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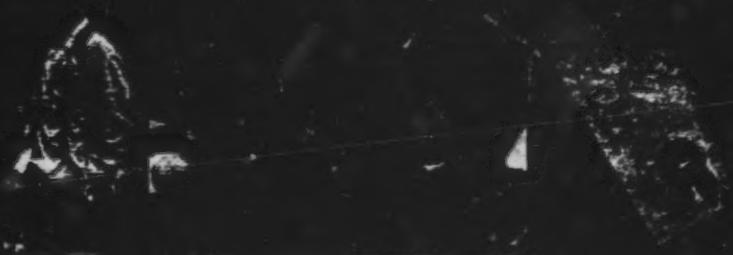

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2

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Table of Contents

Introduction by Greg Woods 7

Chapter 1 Reinventing Default Prevention 9

Chapter 2 Best Practices: Pre-college Preparation 15

Chapter 3 Best Practices: The In-school Period 25

Chapter 4 Best Practices: Grace Period and Repayment 37

Chapter 5 Changing Student Lending in America 47

Bibliography

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Introduction

by Greg Woods
Chief Operating Officer, SFA

I am pleased to present to you *Ensuring Student Loan Repayment: A National Handbook of Best Practices.* In October 2000, I welcomed the most experienced and knowledgeable representatives from the financial aid community to the Department's first Student Loan Repayment Symposium. I asked these experts to spend three days sharing their ideas for reducing student loan defaults. I called on them to become catalysts for change, to put everything up for consideration, and not to restrict their suggestions to current practice, law, or regulations.

The teamwork that resulted at the symposium and in producing this handbook is a model for Student Financial Assistance partnerships with the community. The assembled experts, including student representatives, responded with tremendous enthusiasm and commitment.

One broad point of agreement was that we must begin to focus on the life of a student loan, that is, until it is fully repaid. The two-year cohort default rate is defined in statute as the percentage of borrowers who enter repayment in a given year and default before the end of the next year. It has been a common benchmark of institutional performance that has helped screen out schools with excessive rates of defaulted loans. But we know that less than half the defaults take place in the first two years. Lifetime defaults show the total dollars lost and give a more complete picture of the long-lasting impact loans have on students' lives. This handbook covers best practices throughout the life of student loans.

During the symposium presentations and the discussion sessions, writers were recording best practices and ideas for future improvements in the student loan programs. We have organized the chapters in the same way that the symposium discussions occurred. We begin by summarizing recent trends in student loan defaults and the general themes that emerged during the October symposium in Chapter 1.

Chapters 2 to 4 capture the best practices and creative ideas the symposium experts recommended. Chapter 2 focuses on the period before a student

enrolls in college. Chapter 3 looks at the period between enrollment and repayment. Chapter 4 addresses loan repayment.

Chapter 5 has a different purpose. Rather than focusing on current best practices, it presents the major symposium themes for substantially improving the student loan programs.

We have tried to make this handbook as user friendly as possible. We have highlighted innovative practices, and programs, and results from across the country, with names and contact information. You can follow up on specific ideas by contacting the experts identified for each item. Some symposium attendees were so excited by what they learned that they have already begun to make changes.

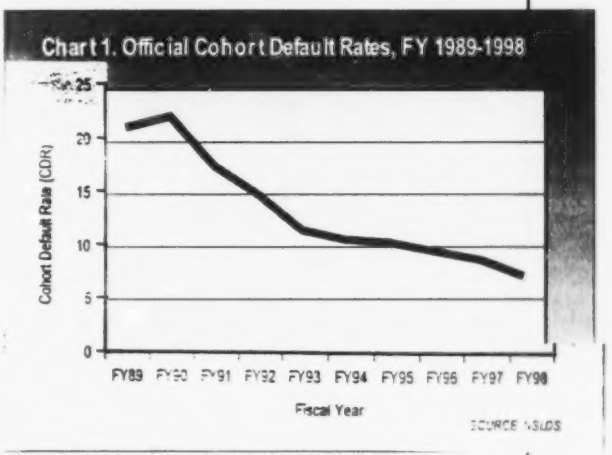
My thanks go to the people who participated in our symposium and shared their ideas with us. Many participants worked long hours and donated their time to this project. With our partners and students, we have been able to develop a handbook that you can use to serve students better and prevent defaults. I look forward to working with you.

Chapter 1

Student Loan Defaults in Perspective

Ten years ago, the student loan cohort default rate for all colleges, universities, and career schools had climbed to 22 percent. In the face of this alarming trend, the Secretary of Education, Lauro Cavazos, announced, "Student loan defaults are a serious, but not unsolvable, problem. By working together we can reduce defaults while increasing educational success for our students. Defaults are a waste of valuable student aid money and must be stopped."

On October 2, 2000, the President of the United States, Bill Clinton, announced the lowest default rate ever in the student loan programs! That rate is just 6.9 percent. How did we cut defaults by almost two–thirds in just 10 years? Simple! We worked hard, we worked smart, and we worked together as a student aid community. Of course, we have been blessed with a strong national economy too. The dramatically declining default rates are shown graphically in **Chart 1.**



This chapter provides a brief overview of the successes we have enjoyed in the last 10 years. Yet, we still have a lot of work to do. We need to look at student loan defaults from a new perspective. The problem may no longer be as serious as it was in 1991, but it is still a problem that threatens the integrity of the student loan programs and harms too many students who borrow to finance their education.

The Last Decade

Over the last 10 years, a number of actions have been taken that have contributed to lowering the default rate. Congress substantially changed the law and gave the Department of Education the authority it needed to restrict or terminate a low-performing school's ability to make student loans. Schools with default rates of 25

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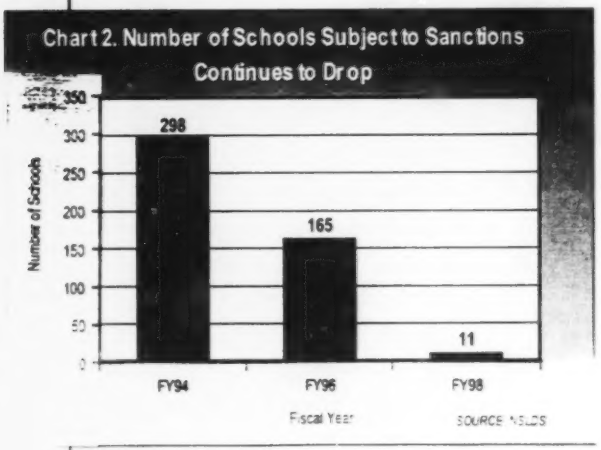
percent or greater for 3 consecutive years are now prohibited from making further loans. Enacted in 1992, this authority has proven to be a powerful and effective tool. Some 850 schools have lost their student loan program eligibility since 1993. This year, only 11 schools are faced with initial or extended loss of loan eligibility, and only 3 of these schools may also lose Pell Grant eligibility. **Chart 2** shows the decreasing number of schools subject to sanctions since 1994.



A more recent change to federal law created exemptions from the default sanctions for schools with low numbers of borrowers and low loan volume, resulting in a lower number of schools facing sanctions than in previous years. A part of the reduction in the rate from the previous year is due to a change in the definition of default--from 180 days without a payment to 270 days.

But the drop in defaults is not just the result of rigorous enforcement of federal statute and regulations or the recent change in default definition. Schools, lenders, loan servicers, collection agencies, and guaranty agencies have worked hard to reduce defaults. They have developed and implemented innovative strategies to help student borrowers before they enter default. Many are effectively using new technologies to share loan information and give borrowers instantaneous access to individual account information. These "best practices" have been replicated by other organizations and have contributed greatly to the reduction in default rates.

Program improvements have also played a part in helping to reduce defaults. Student loan borrowers can now choose from a variety of flexible loan repayment plans. They can even choose to make payments based on their income. Additionally, the practice of consolidating all loans with a single lender is continuing to grow. Consolidation simplifies the repayment process and makes it easy for borrowers to qualify for benefits, such as deferments.

The development of the National Student Loan Data System (NSLDS) makes it easier to track multiple student loans, even if they are sold. Increasingly, the avail-

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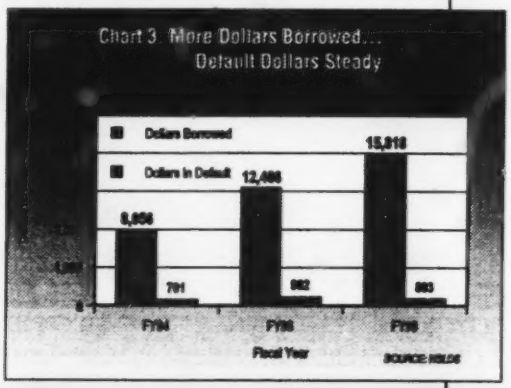
ability of accurate and timely loan information in the NSLDS helps to prevent ineligible students from receiving loans and ensures that legal loan limits are not exceeded.

A great deal has been accomplished over the past decade. The tremendous reduction in student loan defaults is especially noteworthy in light of the huge growth in loan volume over the past decade. As shown in **Chart 3,** total borrowing almost doubled from FY 1994 to 1998, while dollars in default held roughly steady. We are definitely doing a better job of preventing defaults!



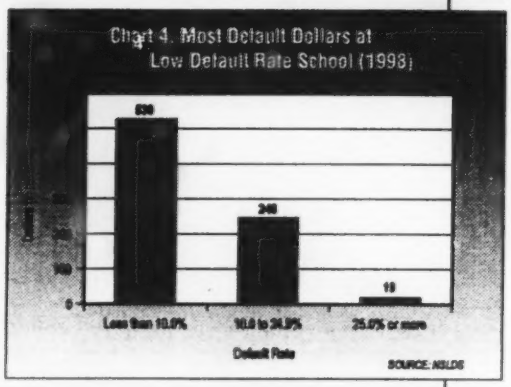
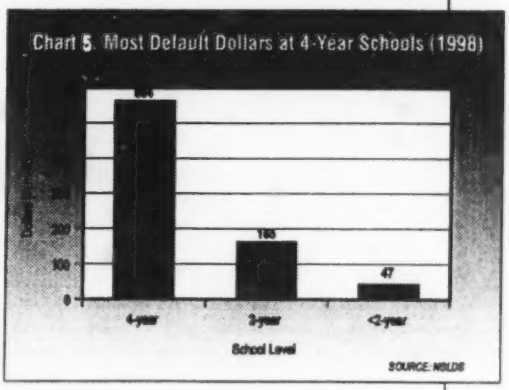


Chart 4. Most Default Dollars at Low Default Rate School (1998)
Less than 10.0%
10.0 to 24.9%
25.0% or more
Default Rate
SOURCE: NSLDS

Reinventing Default Prevention

While we have come a long way in the past 10 years, we can do even better. One limitation of the cohort default rate is that it focuses on the number of borrowers in default at a school, rather than the number of dollars in default at a school. Only 2.5 percent of the 1998 cohort default dollars are at schools with rates over 25 percent; by contrast two-thirds of the dollars are at schools with rates under 10 percent **(Chart 4).** Also, while 4-year schools have low default rates, they enroll the largest number of students nationwide. Most of the cohort default dollars, 70 percent, come from borrowers at 4-year institutions **(Chart 5).**



Calculation of the Cohort Default Rate

The new national default rate of 6.9 percent is for FY 1998—the most current data available—and represents borrowers whose first loan payments came due between October 1, 1997 and September 30, 1998, and who defaulted before September 30, 1999.

The national rate reflects loans made to borrowers who attended some 6,900 postsecondary school that participated in the Federal Family Education Loan Program and the Federal Direct Loan Program.

While the cohort default rate is a valuable measure, it may be time to shift our focus to some type of outcome-based system—one that focuses on helping students avoid defaults, while rewarding schools, lenders, and guaranty agencies for outstanding performance measured against clear goals and standards. "Dollars in default" is a clear performance measure that we can use to determine how well we are doing. All schools, lenders, servicers, collectors, and the Department can work together to reduce the dollars in default. We must develop a sound incentive structure that says "let no student go into default."

Another way that we can do better is to focus on the "lifetime" default rate. Greg Woods, the Chief Operating Officer of Student Financial Assistance, is tracking life-of-the-loan default rates. They are roughly double the 2 year cohort rate. That's a lot of students having trouble repaying their school loans.

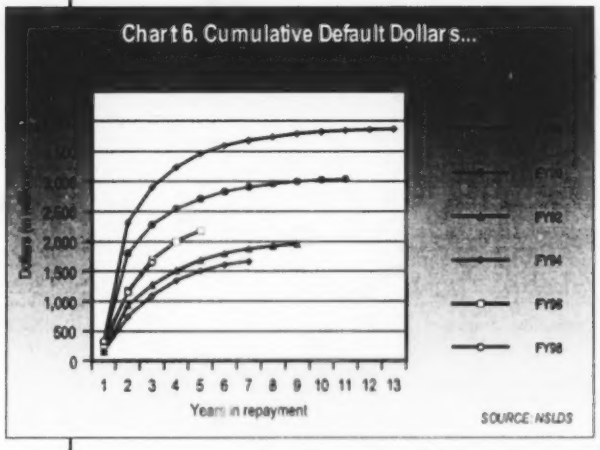


Chart 6 shows that defaults continue to grow on a relatively steep curve for 5 years. Even after 10 to 12 years, loans go into default, although at a much lower rate. And many of the initial defaults—25 to 30 percent—remain in default.

At the October symposium, there was overwhelming support for measuring lifetime default rates. It's time for this more complete picture of defaults. Many symposium participants agreed that lifetime default rates present a guide to what schools, financial institutions, and the Department really need to do now to keep defaults going down. We need default prevention strategies that are effective

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for the life of the loan, not just the first 2 years of repayment.

The Promise of Information Technology

Perhaps the greatest single source of energy and ideas at the October symposium was the potential of cutting-edge technology. In 1990, the Department released a handbook titled *Reducing Student Loan Defaults.* The handbook did not even mention using technology to reduce defaults. In 1990, the Internet was in its infancy and electronic banking barely existed.

Today, we have a number of electronic tools to ease the process for borrowers and to help them repay. Loan payments can be electronically deducted each month from borrowers' checking accounts. Many borrowers can use the Internet to view their loan information and obtain deferment forms 24 hours a day, seven days per week. There is no question that new technologies can greatly simplify the entire process for the borrower and can provide continuity of contact, from origination to payoff. By successfully deploying the electronic tools we currently have available, we can help student borrowers make better decisions and take advantage of all of the default prevention options available to them.

Where Do We Go From Here?

Together, we must continue to work harder to help students make sound investments in their education and training, borrow responsibly, complete their programs, and repay their debts. We must test new strategies and implement the best practices. We must capitalize on cutting-edge technologies as they are developed. Above all, we must focus on the student.

Yes, we've made great progress in the last few years, but we can do even better. This book shows us how we can improve student lending and better serve America's students. This is our formula to build on the achievements of the last decade.

Chapter 2

Best Practices: Pre-College Preparation

David is a high school senior. He does not listen to music on the radio; he downloads music from the Internet and plays it on his portable CD player. He does not read comic books; he watches DVDs on his home computer. David certainly does not go to the neighborhood library to research school papers; he uses the Web to access the library Web site (and hundreds of other Web sites).

David plans to go to college next year. Last week, he took a virtual tour of State University. He liked what he saw, and so he applied electronically. David joined a chat room of students interested in attending State University. He applied for financial aid at Fafsa.gov and used the Internet to search for scholarships.

A few weeks later, David received an e-mail telling him he was accepted at State University. Congratulations, David!

Today's young people are the first generation to grow up during the Internet age. The Internet allows them to access a wealth of information in a matter of seconds. Not only information on N'Sync, but information on universities, colleges, and career schools, as well as scholarships and financial planning. The Internet is helping millions of young people make more informed decisions about their education.

As we all know, one key to reducing loan defaults is helping young people make more informed decisions. Even in the Internet age, there are still thousands of students who do not have the necessary information to make an informed decision about their future. Too many young people still make poor decisions that affect their future because they have not been adequately prepared or informed about higher education opportunities.

In discussions during the October 2000 symposium, participants suggested that lesson number one is to prepare students and families for the college process: academically, socially, and financially. The responsibility for this effort lies at every stakeholder's door: elementary and secondary schools, postsecondary schools, lenders, guarantors, and other educational and social agencies. Educational opportunity is everyone's business.

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Trio Programs
www.trioprograms.org

Federal TRIO Programs (Talent Search, Upward Bound, Upward Bound Math Science, Veteran's Upward Bound, Student Support Services, Educational Opportunity Centers and the Ronald E. McNair Post-Baccalaureate Achievement Program) help students to overcome class, social, academic and cultural barriers to higher education. TRIO services include: assistance in choosing a college; tutoring; personal and financial counseling; career counseling; assistance in applying to college; workplace and college visits; special instruction in reading, writing, study skills and mathematics; assistance in applying for financial aid; and academic assistance in high school or assistance to reenter high school or college.

Think Colleges Early
www.ed.gov/thinkcollege

A U.S. Department of Education-sponsored Web site for students and parents to explore college and to get the information needed to make prudent decisions. Includes three basic areas: Think College Early focuses on students in middle school, their parents, and teachers; High School and Beyond is targeted to high school and college students; and Returning to School emphasizes the educational needs of adult learners.

A wealth of material on preparing for, financing, and going to college is available on the Web from the U.S. Department of Education, state higher education and guaranty agencies, and many not-for-profit organizations. These resources can help you develop a plan (or improve the role you are already playing) to help students and families learn about educational opportunities. To get you started, this chapter identifies some of the resources and Web sites that are currently available.

What follows is a list of nine key strategies with specific actions to help you in your role.

1. Build on early intervention models already in existence.

Research and practice has clearly shown that programs designed to increase students' "college knowledge" and academic and social skills positively impact a student's opportunity to go to college. According to a recent report from the College Board, thousands of such programs exist, including the federal TRIO and GEAR UP programs. You can build on these programs to make changes in your local area.

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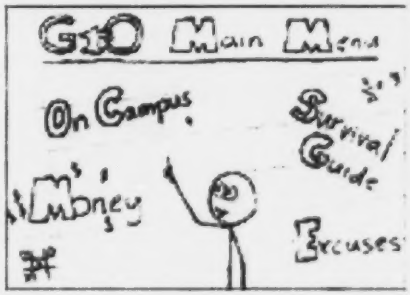
Where should I look to find programs that help students and families learn about or prepare for college?

- Make contact with other local colleges and schools to find out what types of programs they sponsor or work with now.
- Check www.collegeboard.com to search through their online database to find programs in your area.
- Check out the American Youth Policy Forum Web site for information on their two volumes on the best practices in youth outreach. These help identify what works in early intervention activities (see www.aypf.org).
- Speak with your local TRIO program directors (many colleges have a TRIO program) and poll them for directions and strategies.

Going Right On
www.collegeboard.org/plan/index.htm



The College Board offers an exciting multimedia tool for college guidance to junior high schools. GrO/Going Right On®, free online from collegeboard.com, is designed to encourage early teens who may be uncertain about their future prospects for college to start thinking about getting on the college-bound track. With an entertaining mix of words, music, and animation, GrO inspires students to dream about going to college and also gives them sound advice on how to make that dream a reality.

Gear Up
www.ed.gov/gearup

Enacted in 1998 by the Congress, GEAR UP funds partnerships of high-poverty middle schools, colleges and universities, community organizations, and businesses to work with entire grade levels of students. The partnerships provide tutoring, mentoring, information on college preparation and financial aid, an emphasis on core academic preparation, and, in some cases, scholarships.

2. Reinforce the value of postsecondary education.

Research clearly shows that the more education people have, the more earning potential they possess (see Figure 1). Postsecondary schools, lenders, elementary and secondary schools, and community organizations all can help students and parents better understand the value of education. Students and parents need to know that education is an investment for a lifetime.

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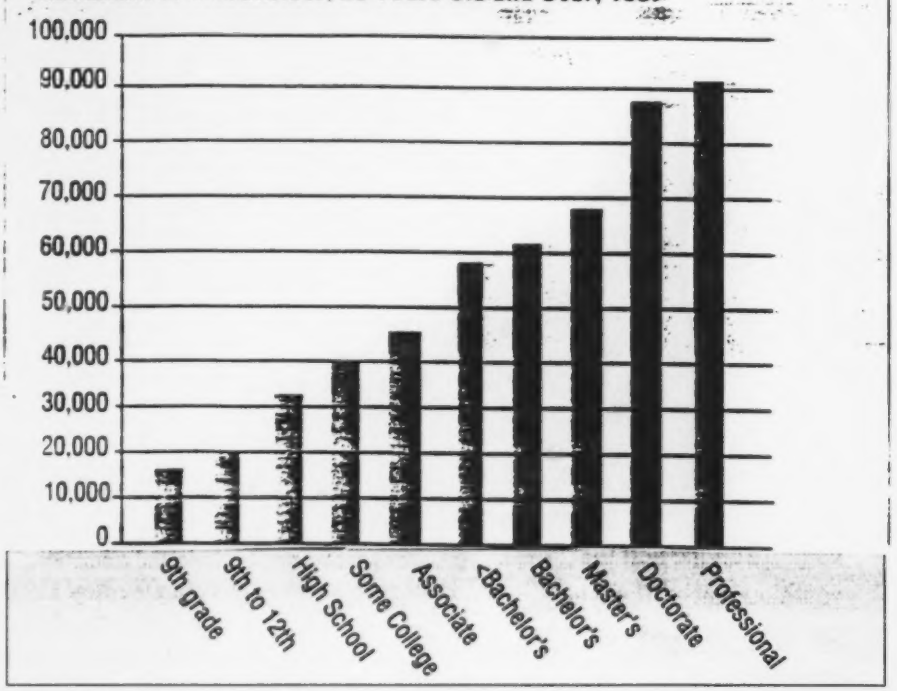
Figure 1: Family Income and Education

Median Annual Household Income, by Educational Attainment of Householder, 25 Years Old and Over, 1997



Source: U.S. Census Bureau. March Current Population Survey. Income Statistics Branch/HHES Division. U.S. Department of Commerce: Washington , D.C. Table F-18 (www.census.gov/hhes/income/histinc/f018.html).

How can I help students and parents understand the impact of education?

- Provide data and information about the returns to education in brochures and leaflets (e.g., see Figure 1).
- Invite real former students as examples to show students and parents how education has changed their lives.
- Work with local PTA groups to find ways to help parents learn more about the impact of postsecondary education and the need to plan and participate in their children's development.

3. Get involved in a national campaign for educational opportunity and postsecondary study.

While we know that sometimes students get pushed out of the educational pipeline for a variety of reasons, it is also true that many students pull themselves out of the pipeline because they do not think they belong or have

a chance in attaining a higher education. This notion must be dispelled. All students have educational opportunity; the main difference is whether they know how to act upon their potential. Symposium participants strongly supported the establishment of a national campaign to help students and families understand that there are numerous paths beyond the high school diploma. You can help raise public awareness about the importance of higher education as an investment—for our society and for the individual.

How do I help make this campaign happen?

- You can talk with your leadership, local and national associations, and other educational entities to bring this important issue up for discussion. The partnering of associations, along with business and industry, educational sectors, and community and media partners will generate the critical mass required to move a large-scale campaign forward.

- Work with local, regional, and national media outlets to help develop a media campaign to acknowledge the postsecondary opportunities available to our youth and adults and indicate where they can find more information. Such campaigns need to be targeted toward students who currently do not go on to some form of postsecondary training.

4. Get college information to students and parents EARLY.

As one symposium participant suggested, "We should hand out a packet of college information when the baby leaves the hospital." Why not? Nebraska actually does provide a college information packet to new parents as they leave the hospital. Several state prepaid and college savings plans also target young parents. By starting to save right away, new parents can tap into the power of compound interest.

What strategies can I use to get information out early?

- Work with K-12 schools and community groups to develop and/or disseminate information to students and their parents. Develop special college packets for K-12 school counselors to

How early is early? Well, in Nebraska, the Educational Planning Center (EPC) thought that birth was the perfect starting point. Connie Schmidt, regional outreach manager for the EPC, began disseminating college-planning information to select hospitals throughout the state in 1996, hoping that they would help disseminate college planners and savings calculators to the parents of newborn children. Participating hospitals have developed their own packets with information from the EPC, which they send home with newborns to start the college savings and planning process. For more information, contact Connie Schmidt at connies@fes.org (402) 479-6651 (www.ne-epc.com).

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hand out to students and parents. Information provided in easy-to-read, jargon-proof material, can be very useful to overburdened counseling staff at schools. Topics should include a description of the college process, information on savings and college affordability, and other pertinent information.

- Collaborate with your local newspapers to provide focus articles and issues on postsecondary education and preparation.

- Make your school's career day a continuous event, not just once a year. Plan on conducting activities throughout the year to inform students and parents about career and educational opportunities. Use guest speakers from your community who have a stake in your community's youth.

FINAID
www.finaid.com

This award-winning site offers comprehensive information and insights about student financial aid for students, parents, and financial aid experts.

5. Target students and families that need the most assistance.

Students already on the college track are most likely to gain entrance to college and follow through on their aspirations. Broad information should be directed at everyone, but special pre-college support should be packaged and directed at high-need groups to get them into the college pipeline.

How should I target special groups and what can we do for them?

- Work with schools in your community to identify students who require special assistance and targeting. Most schools will provide lists and help you contact these students.

- Design and disseminate special packages aimed at low-income families. Packages can have information in an easy-to-read format that provides critical information and grabs their attention.

- You can work with K-12 schools to prepare packets and conduct special "college knowledge" sessions for targeted families.

6. Build coalitions and partnerships to get the word out.

There is no one point of contact to get the right information to students and parents. Information about postsecondary school attendance comes from many sources, and the more the better. Coalitions of schools, colleges, lenders, and guarantors, as well as states, and the U.S. Department of Education will help to further open the doors of higher education for low-income students.

What are some of the strategies I can use to develop partnerships and coalitions?

- First, see if other partnerships are already working together in your community. Check with the chamber of commerce and other organizations to see if they are doing anything.

- If you must start from scratch, first think of people with whom you already work. They may include individuals inside your organization, and those from other organizations and businesses with which you do day-to-day business. This is your easiest path, and can form your core group for something bigger. From the core, expand your contact list as you learn about new opportunities and players.

What can we do together?

- Well, for starters, you can see who is doing what and decide what overlap there appears to be from agency to agency, school to school. Using the best practices in this chapter, help improve local efforts.

- Decide on specific strategies for information dissemination that work well with the consortium as a whole. Find common ground that builds upon consortium members' strengths.

7. Provide information seminars for employees at their workplace.

Lenders, financial planners, and educational providers can work with local businesses to help employees prepare for their children's postsecondary experience. Employers can provide time during the working day for their employees to learn and plan for their children's future.

22

How can I reach out to businesses?

- You should first identify the businesses that employ parents within your recruiting area.
- Contact the community liaison or human resources (personnel) officer of the business to see if they provide any college information to their employees or are willing to offer this benefit.
- Work with the liaison to develop a targeted packet for their employees and provide a seminar for employees. Offer to conduct the seminar on company time during staff meetings or professional development time.

The **American Student Assistance Corporation (ASA)** calls companies' human resources (personnel) offices and offers to talk to their staff about how to fund their children's college educations. They talk to parents with young children as well as those who have children closer to college age, and even help parents whose children may be having trouble making their student loan payments. Contact **Paul Combe** combe@amsa.com (617) 728-4500.

National Association for College Admission Counseling (NACAC)
www.nacac.com/fairs.html
www.onlinecollegefair.com

ONLINE COLLEGE FAIR .COM

The National Association for College Admission Counseling (NACAC) coordinates 36 National College Fairs and 27 Performing and Visual Arts College Fairs each year. At these fairs, students and parents meet one-on-one, in the same day, with college representatives from local, regional, and national levels. New to NACAC is the Online National College Fair, which provides a virtual resource for students and parents.

8. Build bridges between K-12 and postsecondary education.

Several conference participants suggested that institutions of higher education can invest more heavily in K-12 school academic improvement and pre-college outreach programs for disadvantaged students. It is in the schools' and the other stakeholders' self-interest to support these efforts; reaching, motivating, and preparing more young people expands the potential college-bound—and qualified—pool of students. For example, summer or after-school programs that bring young people onto campuses tend to be effective in giving them a sense of what college is about, and a sense that college is possible. Likewise, college students and graduates can serve as effective mentors in middle and high schools. Schools and colleges can

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expand programs that bring youth together with mentors to help guide them through the college process.

How do I develop bridges between secondary and postsecondary schools?

- Learn about the bridge activities that are going on in your community now. Then lend your support.

- Initiate a dialogue between K-12 and higher education. Invite key individuals from each local school/institution to the table, as well as other stakeholders as appropriate (e.g., business, local government, lenders, etc.). Once at the table, discuss how everyone can work together in a better fashion to help students transition during the matriculation period between high school graduation and the fall semester. This may involve the development of new programs, or information campaigns, or other strategies. More than likely, it may involve a number of concurrent strategies.

The National Society of Collegiate Scholars is a volunteer society of undergraduate students based on 141 college campuses, and growing rapidly. College students work with middle and high school students. Contact Steve Loflin loflin@nscs.org (202) 234-5295 x 112.

9. Support career and college fairs at middle and high schools.

High schools have long hosted college and/or career fairs for their students. These can be wonderful events, but they are far better when many stakeholders are involved, including local colleges, businesses and industries, and community agencies as well as parents and students.

How can I participate or help develop college fairs?

- Contact NACAC (National Association for College Admission Counseling) for detailed information about designing effective college fairs. NACAC also has an Online National College Fair available to users (www.onlinecollegefair.com/).

Educational Credit Management Corp (ECMC) of Virginia has produced a CD that high school students get free. It includes general information on applying for aid and school admission, together with general information provided by each participating school. The CD leads users to applications and other sources of aid and it is used widely at college fairs. Contact Jeanne Holmes jholmes@ecmc.org

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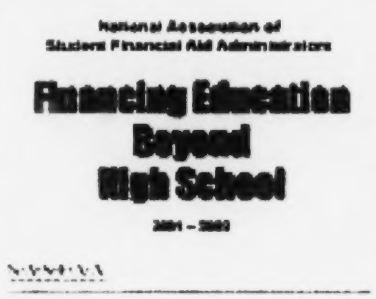
- Try and involve as many stakeholders as possible to have their direct input into the planning and orchestration of the event. This ensures up-to-date information and guidance, plus the benefit of bringing the education community together.

National Association for Student Financial Aid Administrators
www.nasfaa.org/nasfaa/static/general/public/FAnight.asp



The National Association for Student Financial Aid Administrators (NASFAA) has published a handbook and web resource entitled "Planning and Conducting a Financial Aid Night (2001-2002 Edition)," which includes important steps on how to set up a financial aid night, as well as a script (narrative) for the slideshow. The slideshow presentation is available in several different formats.

- Network with other schools locally and throughout the nation to learn what they have found effective in counseling and supporting career- and college-planning efforts.

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Chapter 3

Best Practices: The In-School Period

David's first week at State University is really busy. He moves into his dorm. Gets a school e-mail address. Registers for classes. Buys his textbooks. Applies for a credit card. Completes his student loan **entrance counseling** on-line. Meets with his academic advisor. He also makes a number of new friends.

After five years of school, David is graduating. He takes his final exams and turns in his senior thesis. Attends **exit counseling**. Picks up his cap and gown. Goes on a job interview. Attends his graduation ceremony. And moves out of his dorm.

The first and last weeks of college are really busy for millions of real students. Do they remember what was said at entrance counseling? Let's see, that was 5 years ago. Probably not. Do they remember attending their graduation ceremony? Absolutely! Do they remember what was explained at exit counseling? Maybe, but that was a pretty busy time. An important question is whether they had any contact with their financial aid offices between entrance counseling and exit counseling. We sure hope so!

The financial aid office plays a critical role while the borrower is in school. By staying in frequent contact with the student and working with other school offices, such as academic services, the financial aid office can proactively prevent defaults.

1. Make the most of entrance and exit counseling opportunities.

Student borrowers who leave school understanding their repayment obligations and options, such as deferment and forbearance, are less likely to default.

In a study of defaulters at the **University of Illinois, Chicago**, the most frequently cited reason for default was lack of information. For more on this analysis, contact **Judith Flink** jflink@uic.edu (312) 996-2515.

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26

How can you make your counseling more effective?

- Make sure your required entrance and exit counseling sessions are interesting and carefully prepared. Standardized presentations given year after year to comply with Federal counseling requirements can become rote and boring. If students perceive that you are not taking the counseling requirement seriously, they may not listen to you, and may not fully understand their repayment obligations.

The problem: "My (own) entrance counseling was 'a joke' – the counselor did not want to be there and no one was listening."
— a symposium participant

- Include parents in entrance counseling if your borrowers are dependent students. Parents are in a better position to help their children borrow wisely if they understand students' rights and responsibilities. It is sometimes difficult to get parental participation, but the effort pays off if you can do it.

The University of California, Berkeley includes parents in its new student orientation program. Berkeley is noticing that parents are "becoming more tuned-in to the consequences and obligations of loans." Contact J. Faye Fields jff@uclink4.berkeley.edu (510) 642-2852.

- Use the Internet. Many organizations, including the Department of Education, lenders, and guaranty agencies have developed excellent Web sites to which you can direct your students. Some of these sites provide on-line entrance and exit counseling that meet mandated counseling requirements. They also contain a lot of additional information that your students will find useful. Plus, Web sites are available 24 hours a day, 7 days a week.

Exit counseling at UCLA School of Medicine is a collaborative project with the Association of American Medical Colleges (AAMC). It provides students with basic information regarding loan repayment through a video-streamed presentation. Students are assigned passwords, and their use of the videos is tracked. Experience shows that about 40 minutes can be saved in face-to-face counseling time per student as a result of using the Web for the basic information. Students come to counseling sessions better prepared with a good understanding of the basics, and with more advanced questions. Contact Teddie Milner Tmilner@mednet.ucla.edu (310) 206-8492.

2. Use all types of communication

People learn in many different ways. For some, one-on-one contact works best, while others may prefer the impersonal aspects of Web contact. But most people respond best when they are treated as individuals, and when they know that there is someone on the other end who cares about them.

"I love the e-contact, but I am afraid of losing the personal contact."
— a symposium participant

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- Personalize your communication with students. If you can do this through face-to-face meetings, especially one on one, there are some advantages. You get to know the individual circumstances of your students, and they have a real person to turn to for help in the future.

- Direct your borrowers to good Web sites. It may be one that your school has developed. Or you may guide students to sites developed by the Department and guaranty agencies.

- Give students advice about how to make the most effective use of Web sites. Even though the growing sophistication of electronic media has made the Web quite user friendly, the sheer number of sites can be confusing, and the quality of information is not always high.

- Use e-mail to keep in touch with your students throughout their enrollment.

- Use written materials that have carry-away value. Innovative suggestions for using print media include making bookmarks that contain pertinent contact information, or cards for students' wallets.

The Pennsylvania Higher Education Assistance Agency (PHEAA) hired an ad agency to spearhead its default aversion campaign. The campaign includes posters, picture postcards, a Web site and an 800 number. The messages include technical information, such as keeping the account current, and more general help, such as how to dress for a job interview. At registration time on campuses, PHEAA distributes posters of a belly tattooed with the word "defaulter." The poster says "Funny how it seemed like a good idea until you realize it will be with you for ever." Contact **Pamela Roda** proda@pheaa.org (717) 720-2485.

The Postsecondary Education Assistance Corporation helps schools produce wallet-size cards with helpful loan repayment hints on one side, and the name of the school (or default prevention service provider) with telephone number and hours of operation on the other side. During counseling, the students are asked to take out their wallets and insert the card in a safe place. "We encourage students to place this card next to photos of their loved ones. We remind them that if they have questions about their student loans, we are like family, and are there to help." Contact **Beth Keifer** eakeifer@ix.netcom.com (202) 328-1185.

3. Communicate with borrowers often.

Keeping in touch with students reminds them that they have loans that will need to be repaid when they leave school. Regular contact has the added benefit of strengthening students' ties with the school and increasing the likelihood that they will complete their programs.

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28

How can I keep in regular contact with borrowers?

- Use E-mail. It has the advantage of being low cost and high impact. Keep in mind that you don't want to inundate students; too much and they will stop reading what you send. You also need to keep the information you are sending relevant, simple, and interesting.

Susan Pugh of **Indiana University**, in her symposium presentation, explained that communicators "should apply the principles of faxed communications" to all communications. Faxes send out a message that says

- I'm getting ready to send a message, are you ready? If the line is busy, there is no transmission.
- OK. Here comes part of the message.
- Did you receive that part of the message?
- OK. Here comes another part of the message.
- I am now finished with the message. Please confirm that you received it.

Contact **Susan Pugh** spugh@indiana.edu (812) 855-7087.

- Many lenders and servicers are now contacting borrowers regularly during the school enrollment period. Talk with your preferred lenders to see how they maintain contact during the in-school period.

4. Target the message to students' specific needs – one size does not fit all.

Students are more likely to pay attention if you focus your communication on the specific characteristics of your borrowers, and where they are in their programs.

How do I tailor messages to individual borrowers' needs?

- Entrance and exit counseling should reflect the borrowers' circumstances – whether they are dependent or independent students, or whether they live on or off campus, have family responsibilities, etc. Don't use the same presentation for all your students.

Ohio State University sends each borrower an e-mail newsletter to each borrower that is specific for each class level. Contact **Tally Hart** Hart.149@osu.edu (614) 688-5712.

- Send messages that are relevant to where students are in their program. Seniors need to be thinking about different loan issues than freshmen.
- Vary your methods of communication to reflect the different student subpopulations – *one size does not fit all.* You might want to use electronic communication for most of your students, but use telephone calls or face-to-face meetings for those you identify as at risk of having problems repaying their loans later.

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5. Identify and focus special efforts on high-risk borrowers.

Targeting special counseling to high-risk borrowers can help them successfully enter repayment and avoid default.

At the symposium, a number of presenters talked about research to help identify students who are most likely to default. Most often, this process was identified by the term "profiling." Judith Flink of the University of Illinois, Chicago, shared a profile of UIC's student loan defaulters. Another presentation by Jennie Woo of EdFund showed similar results for California students.

Your own institutional research may reveal other characteristics of high-risk students, but UIC's lists gives you a good starting point to begin analyzing your school's data. Once you know what groups of borrowers at your school are at risk of becoming defaulters, you can concentrate your efforts first on those students.

Profile of a Student Loan Defaulter (University of Illinois, Chicago)

- The borrower failed to graduate.
- The borrower failed to provide a current address or phone number.
- The borrower owed less than $2,000.
- The borrower faced poor job prospects.
- The borrower had other financial burdens beside education debt.
- The borrower did not perform well academically.
- The borrower came from a low-income household.
- The borrower married another student with loan debt.
- The borrower was a single parent.

The most frequently cited reason for default was none of these, however. It was lack of information. For more on this analysis, contact Judith Flink jflink@uic.edu (312) 996-2515.

What sorts of interventions have been successful?

The best approach for you will depend on the individual characteristics of your students. The key is to identify at-risk borrowers and keep personal and on-going contact with them. Examples from the symposium include:

- At Virginia Commonwealth University, the financial aid office has had success working with high-risk borrowers in small groups.
- The University of Illinois, Chicago, uses "every opportunity" to communicate with students about loans. UIC uses a video that runs continuously in the Receivables Office and an electronic monthly newsletter. UIC also encourages students to work part-time through the College Work-Study program.
- Xavier University provides exit interviews on an individual basis when students drop out of school. They know that these borrowers have a high risk of defaulting. During the interview, a counselor discusses the student's future plans, identifies the lender(s), and reviews the student's repayment obligations and options. In contrast, exit interviews for graduating seniors are conducted in group sessions.

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30

6. Tell borrowers repeatedly that loans are not grants and must be repaid.

> "Make sure students know they are borrowing money."
> — *a symposium participant*

> "Students are stunned when they realize how much interest accumulates over the life of the loan."
> — *a symposium participant*

Symposium participants reported that even after borrowers have been counseled, some still don't understand their loan responsibilities and rights.

Some students don't see loans as financial aid, and don't absorb the fact that their financial aid packages include loans that have to be repaid. Others don't pay attention because they figure they will "deal with it" after they graduate. Symposium participants stated that financial aid recipients need to be told very clearly and directly that loans must be repaid, and that there are life-changing consequences to default. As one participant said, "make sure they know they are borrowing money by reinforcing this not only during entrance counseling but throughout students' enrollment."

How can I ensure students know they are borrowing money?

- Use clear, simple language in your entrance counseling sessions.
- Make sure borrowers are given the time to read all the materials they are signing.
- Require borrowers to attend loan counseling sessions each year.
- Send annual statements to borrowers showing how much they have borrowed, what their monthly payments will be, and the total principal and interest they owe.

Brigham Young University requires borrowers to complete a seven-step Web-based planning process each time they apply for a loan. Responses help identify who should be called in for counseling. Also, when the loan has been certified, the institution provides borrowers with a disclosure statement that shows the anticipated monthly repayment, and the total amount they will pay in interest and principal for all loans. When the practice began 5 years ago, students complained that the school had bad data, but it turned out that these students were unaware of the cumulative impact of their borrowing. Contact **Norm Finlinson** Norm_finlinson@byu.edu (801) 378-4659.

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7. Encourage students to consider their ability to repay given their career aspirations.

Research clearly shows that borrowers who are unemployed, or in low-income jobs, are more likely to default.

There are no guarantees in life, with or without a degree or certificate in whatever field or discipline, but students can gauge their prospects from the best available information and they can confirm their plans at regular checkpoints along the way. As one symposium participant put it, "students need to kick the tires of their career choices." Students who borrow especially need career guidance.

How can I help students understand the impact of their career choices on their ability to repay student loans?

- Counsel students not to overborrow. Be prepared to use your professional judgment when evaluating the amounts students borrow. Schools have the authority to deny or reduce loans based on individual borrower circumstances.

The University of California, Berkeley discusses students' career aspirations and borrowing choices after students complete their first 2 years of study. Contact J. Faye Fields jff@uclink4.berkeley.edu (510) 642-2852.

- Help borrowers evaluate how much they should borrow based on how much they will earn after school. Find typical starting salaries by contacting businesses in your community, checking with the campus career office, or by going to the Bureau of Labor Statistics" Web site to find the "Occupational Outlook Handbook" (stats@bls.gov/emphome.htm).

- Remind borrowers that there are flexible repayment plans now and that repayment can be based on their income. Give students examples based on borrowing averages at your school.

8. Minimize borrowing during the first year.

Students who take loans during their first year in school but do not complete their programs are at high risk of default.

The University of Texas Pan American found that freshmen who borrowed and then dropped out were responsible for a high percentage of the school's defaults. So the school now offers grants to entering freshman. Students are encouraged to use loans as a last resource of financial assistance. Contact Belen Valdez Abvaldez@panam.edu (956) 381-2504.

What can I do to help reduce first year borrowing?

- Be especially vigilant that students are borrow-

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ing only what they need for tuition, fees, books, and modest living expenses during their first year of school.

- Some schools don't package loans for first-year students. Make grant funding to first-year students a priority in your financial aid packaging. Instead of packaging loans, use institutional aid for high-need students.

9. Carefully monitor the marketing and availability of private loans on campus.

Many students are accumulating loan debt on top of their Federal and state loans. Private loans can add to their loan repayment difficulties.

Symposium participants voiced special concern about the growth of borrowing opportunities from sources other than state and Federal governments. However, participants pointed out that students sometimes need to borrow from private sources because of Federal loan ceilings.

What can I do to monitor the use of private loans by students?

- Monitor alternative loan providers and limit the availability on campus of programs with unreasonable terms and conditions.
- Include alternative loan debt when counseling students about their ability to realistically repay all of the loans they have borrowed.

10. Discourage students from using credit card debt instead of taking out loans.

Some students accumulate credit card debt in lieu of applying for loans because the application and approval process is easier.

How can I discourage credit card use?

- Help students fully understand the costs of credit card debt.
- Remind students who pay school bills with credit cards that they may be able to get a student loan instead.

11. Teach personal financial management skills.

Many of today's college students come to school lacking important financial skills—what some call basic "financial literacy."

For many students, taking out a loan is their first contact with any bank. They have no experience with electronic banking, handling checks, or managing debt.

How can I help students learn personal management skills?

- Provide *financial skills training* to students in such areas as budgeting and financial planning, savings, debt management, and electronic banking. As one symposium participant said, "It's really important to integrate financial aid counseling into a larger context. An aid office that will only talk about your financial aid, and not your overall financial picture, isn't doing a very good job."

  Use instructor-taught courses, institutional Web-based courses, and on-line Web courses developed by others, such as guaranty agencies. Courses can be taught by faculty or financial aid professionals who have gained the knowledge to provide a broader financial counseling perspective.

- Bring credit and debt counseling agencies to campus to provide student counseling.

- Promote the development of banking skills by disbursing student loans electronically. It familiarizes borrowers with bank accounts, checkbooks, and especially automatic deposits and payments. One participant noted that "It turns students into fans of direct deposit," which helps when loan repayment begins.

When students enroll at the University of Northern Colorado, Greeley, they are issued a unique campus ID card that provides a multitude of services on and off campus. It also doubles as a free ATM and debit card in partnership with Wells Fargo Bank. This card gives students access to their UNC Greeley student aid and payroll information. It's a good introduction to banking for less advantaged students. It also encourages all students to get into electronic banking through the free on-line banking service offered by Wells Fargo. UNC Greeley direct deposits more than 80 percent of the loan funds students receive into these student bank accounts. Contact Cindy Vetter cvetter@unco.edu (970) 351-2821.

The University of Illinois, Chicago has developed its own web-based software called "Financial Counselor,™" which must be used by all loan recipients every year. Topics include opening a bank account, establishing good credit, keeping records, reducing debt, money management, student loan provisions, loan default consequences, loan and budget calculator, and a budget worksheet. Questions are changed each year to keep the tutorial fresh. Students who complete Financial Counselor™ with 100 percent of the questions correctly answered are entered into a drawing for a $100 cash prize. The money gets students' attention and the response rate is great. Contact Judith Flink jflink@uic.edu (312) 996-2515.

The University of California has promoted the use of electronic fund transfer for students' grants and loans for many years. At UC San Diego, four out of five aid recipients have their grants and loans directly deposited to their bank accounts, as do almost all students at UCLA. Contact Ann Klein (858) 534-3898 aklein@ucsd.edu Robert J. "Bob" Caruso bcaruso@saonet.ucla.edu (310) 825-0171.

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34

12. Promote early payments during enrollment.

Borrowers who make small loan payments while they are enrolled develop good repayment habits and are less likely to default.

At the symposium, we heard the story of a student who cashed her $2,200 student loan check, lost the cash that same day and became a vocal advocate to her fellow students of electronic disbursements.

Students are not expected to make any payments while they are in school or during the grace period. This can add to the mistaken perception among some students that none of their financial aid needs to be repaid. If students can be persuaded to make even small payments while they are in school, they will begin to develop good repayment habits. Symposium participants reported that lenders are especially enthusiastic about small early payments when they can be handled electronically.

How can I encourage students to make early loan payments while they are still in school?

A borrower with a $5,000 subsidized Stafford Loan will repay —

- $2,340 in interest under the ***standard*** 10-year repayment period.
- $2,868 under the 12-year ***extended*** repayment plan.
- $3,615 under the ***graduated*** repayment plan.

- Help students understand the impact of the interest that accumulates on unsubsidized loans during school years. First, give them examples based on average borrowing at your school. Once they have borrowed, use each student's own information.
- Give borrowers information that clearly shows the benefits of making early payments, even small payments, on both subsidized and unsubsidized loans. Estimate savings that the borrower will receive over the life of the loan.
- Have students who are actually making early payments speak with groups of new students. The experienced students can explain how they are able to make payments while they are in school and why they decided to start repaying early.

13. Help borrowers stay in school and complete their programs.

Students who leave school before completing their programs, especially within the first year of enrollment, are the most likely to default on their loans. Program completion is a critical predictor of loan repayment.

As part of its "Bruin Budget Plan©," University of California, Los Angeles, encourages their students to "Pay as You Go©." Students see how much more quickly they can pay off a loan if they make small payments of about $20 per month on their loans while they are enrolled and during the grace period. UCLA also encourages students to accelerate their repayment schedules by making 13 payments a year instead of 12. Contact Robert J. "Bob" Caruso caruso@saonet.ucla.edu (310) 825-0171.

How can I help borrowers stay in school?

- Integrate financial and academic counseling. The financial aid office is often the first place students visit on campus. This contact can be used to connect students to the institution's social and academic systems.
- Appoint a student ombudsman to provide an impartial resource to help students with financial and academic issues.
- Know what all the resources are to help your students pay for school and living expenses. This includes programs such as AFDC.

The University of Illinois, Chicago, sponsors a freshman retention phonathon. Staff call freshman and transfer students to ask about their experiences at UIC, express good wishes, and answer any questions they may have. Financial aid staff members participate in this project and respond to any student loan issues. Contact Judith Flink jflink@uic.edu (312) 996-2515.

Eight years ago, Indiana Wesleyan University developed a retention program that uses a team approach to assessing and counseling its students. With support from the Lilly Foundation, they established regular financial and academic checkpoints to monitor the progress of student borrowers and to look for warning signals. The team adjusts financial aid and course-taking strategies for students to enable them to complete their programs. Contact Lois Kelly lkelly@indwes.edu (765) 677-2116.

14. Hire a default management specialist.

Schools with default management specialists have significantly reduced their default rates.

Many symposium participants urged the appointment of an institutional default management specialist who could work with high-risk borrowers while they were still enrolled, as well as when they entered the repayment phase.

The City University of New York (CUNY) colleges help the COPE program (College Opportunity and Preparation for Employment) which assists students who receive TANF benefits to complete associate degree programs in no more than three years. The program provides stipends for child care, extensive career counseling and placement services, and assists students who are prior loan defaulters in curing the prior default.

What skills should I look for when hiring a default manager?

- First and foremost, excellent communication skills. A default manager will work with a diverse population of individuals. Listening skills, as well as speaking and writing, are critical.
- Knowledge of Federal program requirements and student lending practices.

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36

With a majority of its 30,000 students from first-generation college families and on financial aid, Long Beach City College's financial aid office strongly encourages students to take the "Orientation for College Success" course before receiving their second loan disbursements. This one-half credit transferable course teaches students how to use the course catalog, get the right classes, manage their time, and meet their academic objectives. Students can take the course over the Internet or in a classroom, all in one week or stretched out over three weeks or nine weeks. Students leave the course with an educational plan that is reviewed and approved by the counselor/teacher. Statistics show that Long Beach students who take the course persist at higher rates and get better grades than students who don't take it.

The college couldn't legally require students receiving aid to take the course. But the financial aid office tells aid recipients that if they want to succeed, they need to take this class. And they do—with few exceptions and good results. Contact **Toni DuBois**, Director of Financial Aid tdubois@lbcc.cc.ca.us (562) 938-4573.

Xavier University's debt management counselor provides a single location where students can go for support and advice with their loans. She knows that what helps students most is communication. In addition, she understands the importance of documentation – each time she contacts a student by phone or mail, the contact is documented. Contact Gina Hinton ghinton@xula.edu (504) 485-5213.

Westchester County Community College in New York has cut its default rate from 20 percent to 3.8 percent in the past 4 years. That's a savings of $185,000. How did they do it? They hired a default manager. Contact **Melonie Cassells** melonie.cassells@sunywcc.edu (914) 785-6781.

- A willingness to tackle complex issues and help solve problems.

What would I ask my default manager to do?

- Develop effective and ongoing communications with borrowers. Contact borrowers in the evening or weekends (not just normal business hours) when needed to resolve delinquencies and avert default.

- Advise borrowers on all aspects of the loan process, including debt management and budgeting. Assist borrowers in choosing a repayment plan based on their personal circumstances.

- Review reports from guarantors or the Department on potential defaults. Actively help borrowers come up with a plan of action for resolving the delinquency. Work as a mediator with the lender and borrower in resolving borrower problems.

- Establish regular contacts with lenders, servicers, and other loan holders and maintain a listing of those regular contacts.

- Help students complete forms and apply for deferments, forbearances, and cancellations.

- Document those kinds of issues that your borrowers often experience and take steps to prevent similar problems from happening for new students.

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Chapter 4

Best Practices: Grace Period and Repayment

After David graduated from college, he decided to spend a year backpacking in Europe. While he was gone, he went into repayment on his student loan. His lender kept sending statements telling him that the grace period had ended and the first loan payment was due in December. Unfortunately, the billing statements were sent to his old address. The new occupants simply threw them away.

When David returned, he did not have a job. He moved in with friends while he began job hunting. One night, he received a phone call from a collection company. They told him that his loan was seriously delinquent and that his loan would go into default unless he began making payments. He also learned that his credit record showed the delinquency. The collection company helped David defer payments until he could find a job. Fortunately for David, he was able to find a job quickly and take steps to resolve his loan problems and improve his credit record.

Unfortunately, situations like David's still happen. Too often, borrowers become delinquent or default because they do not understand their student loan responsibilities. Sometimes it happens due to "little" things, like forgetting to report a change of address. However, the consequences of student loan default are anything but "little."

The moment the borrower leaves school is the beginning of the most complicated part of the default prevention process. All of the loan partners—schools, lenders, guaranty agencies, and servicers—become involved.

In addition to the complexities of loan repayment processes, responsibilities, and options, the symposium participants emphasized the need to remember that each borrower is unique and that approaches to ensuring repayment should be tailored accordingly. For example, some borrowers are overextended on credit and have too many credit cards. Others are employed, but do not see repaying student loans as a priority. In some cases, borrowers have no income after they leave school, or are so overburdened that they have no wages left to garnish. Threats may work with some, while support and counseling are more effective with others.

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38

This chapter offers some of the best and most innovative practices currently being used to promote student loan repayment.

The problem: If students do not inform the school they are leaving, the school has a hard time identifying them as dropouts immediately. For example:
- Students can leave school during a term and be well through the grace period before the school identifies them as drop-outs and informs the lender.
- Students can leave at the end of the term and not be identified as non-returning students until after registration is complete for the following term. Much of the grace period has elapsed by this time.

1. Know immediately when your students drop out of school.

Dropouts are more likely to default than students who complete their programs. We know that establishing early contact with dropouts is key to preventing defaults. Keeping track of dropouts is doubly important—and problematic—because they are less likely than transfers or graduates to stay in touch with lenders and servicers.

How can I improve my school's ability to track dropouts?

- Establish record-keeping processes and systems to alert you quickly when a financial aid recipient leaves school.
- Communicate with your enrolled borrowers regularly. Reinforce the message that they have the responsibility to tell you and the lender when they leave school. Also, see chapter 3 for ideas on communicating with student borrowers.
- Ask instructors to alert the registrar's office when students in their classes stop showing up. Explain to the instructors that it will help you to help students with their loans.
- Check your course drop procedures to be sure they are designed to identify borrowers who drop all of their courses. Set up a process to contact those students immediately. Tell them that they must come in for academic and financial counseling.

The University of California, Berkeley solved problems in their financial aid processing system, which was incorrectly showing students as withdrawn. Avoiding technical defaults helped to contribute to a drop in their cohort default rate from 9 to 4 percent over four years, and a savings of $1.5 million a year in reported default volume. Contact **J. Faye Fields** jff@uclink4.berkeley.edu (510) 642-2852.

Melonie Cassells at **Westchester County Community College** follows up on:
- Students who do not re-enroll.
- Students who officially drop below 6 credits.
- Students who file for graduation.
- Students who are in their last semester.

She never lets go—if a student leaves without notifying the school, and then calls up later asking for a transcript or some other record, SUNY Westchester County will not provide the record until the borrower comes to campus IN PERSON and attends a workshop on debt management. For more information, contact **Melonie Cassells** melonie.cassells@sunywcc.edu (914) 785-6781.

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- Send letters to borrowers who do not use early registration for the next term. Ask them whether they will be returning. Remind them that their loans will enter repayment 6 months after they leave school. Tell them that they must come in to discuss their repayment options, if they don't return. Also, if a student who has dropped out asks for a transcript or some other record, do not provide it until the borrower comes in for financial counseling.

2. Get dropouts re-involved with school.

The best way to help your dropouts become successful loan repayers is to encourage them to return to school to complete their programs.

How can I help dropouts return to school?

- Contact all dropouts as soon as you can.
- Find out why they left school, and what it would take to get them to re-enroll. Involve teachers and the business office in this initiative.
- Explain that they can defer their loans as long as they are enrolled.

The Natural Motion Institute of Hair Design designed its Start Fresh program to target dropouts and help them to return to school to finish their programs. They contact each student and explain that they are able to pick up their programs where they left off, and can get a loan deferment too. About 10 percent of the Institute's enrollment are dropouts that have returned to school. Those who complete their education are at much lower risk of defaulting. This is a win-win program that saves money for the school and the student. Contact Ray Testa NATMOT@worldnet.att.net (201) 659-0303 or (914) 785-6781.

3. Track students who transfer to another institution.

Technical defaults occur when borrowers leave one school and enroll in another without informing anyone at the first school or their lender. The first school identifies the student as a dropout and tells the lender to put the student into the grace period. Because the student is actually in school, he or she often ignores the information sent by the lender. If the lender does not learn that the student is back in school, the student could eventually be treated as a defaulted borrower.

Tracking transfers can be difficult and costly but it is worth the effort if you can help students avoid falling into technical default.

What can I do to track transfer students?

- You can establish internal record keeping systems to alert the financial aid office of possible transfers — when a transcript is requested, for example.

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- You can explore with your state higher education agency the possibility of receiving information on transfers from their enrollment database. Some states collect data regularly on each student who is enrolled in public (and sometimes private) schools in their state. States can use these databases to track students who transfer to other schools within the state.

"Knowing where borrowers are after they leave school, or finding them if you don't know where they are, is more than half the battle." — *a symposium participant*

"If you can reach borrowers, you can generally help solve their problems." — *a symposium participant*

- You can look up a borrower on the National Student Loan Data System (NSLDS) to see whether he or she has taken out a loan through another school. For further information about looking up borrowers call 1-800-4FEDAID.

4. Make contact with borrowers early in the grace period.

Keeping in touch with the borrower during the grace period is a critically important step in preventing defaults. Borrowers are likely to relocate when they leave school and may be difficult to trace. If they do not get reminders about when to start paying their loans, and where to send their money, they may not take the initiative to find out for themselves. All of the loan partners—schools, lenders, guaranty agencies, and servicers—are involved during the grace period.

The Pennsylvania Higher Education Assistance Agency (PHEAA) sends a postcard to students who have withdrawn from school showing a half eaten pizza saying "You still have to pay for it." Contact **Pamela Roda** proda@pheaa.org (717) 720-7485.

The problem: Lenders use projected graduation dates that have been provided by registrars to anticipate program completion and move borrowers into the grace period. Registrars often provide predicted graduation rates beyond the traditional time taken by full time students because many students take longer to finish. If the borrower completes his or her program before the predicted date and the lender is not notified, the lender will not move the borrower into the grace period on time.

What should I be doing during the grace period?

- Tell the Department or lender as soon as a student graduates or leaves. Do not wait until the next mandatory reporting time. Early notification helps lenders move dropouts and program graduates into the grace period on time, and track borrowers more easily.

- Contact borrowers immediately after they enter grace and several times during the grace period. Do not wait until the minimum 30 days prior to the repayment start date. By then, it may be too late to find them.

- Use the grace period to make sure that borrowers know about consolidation and other repayment options. Remind the borrower about the repayment start date at least 2 months prior to the end of the grace period.

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- Let your students retain their e-mail accounts for at least 6 months after they leave school. This provides a constant point of contact, even if telephone numbers and mailing addresses change.

- Use e-mail where possible to communicate with borrowers during the grace period. It is the most efficient means of continuous communication with borrowers who are on-line. Privacy blocks and caller identification systems increasingly make it hard to get through to the borrower on the telephone, and inundating borrowers with mailings can be counterproductive.

In 2001, the **Direct Lending Program** will start a new grace counseling program. Borrowers who have not chosen a repayment plan by the 60th day of the grace period will be called to discuss repayment options and obligations. Borrowers already have Web access to data about all of their loans, repayment options and a repayment calculator, and forms. Contact **Dan Hayward** dan_hayward@ed.gov

- Use the grace period to set up an electronic payment agreement with the borrower. It creates good payment habits and increases the likelihood that good contact information will be maintained in this critical transition period.

- Encourage your students to make payments during the grace period. This helps students to consider loan payments in their budgets as they leave school and find jobs. Also, borrowers can reduce the total amount of interest they pay.

The **University of California, Berkeley** lets students use campus e-mail at no charge for 6 months after they leave school. Contact **J. Faye Fields** jff@uclink4.berkeley.edu (510) [illegible]-2852.

5. Tailor default aversion and collection techniques to the individual borrower.

Some borrowers are much more likely to default than others. Schools, lenders, servicers and guaranty agencies are using the results of research that helps identify high-risk borrowers to target additional intervention efforts with specific groups of borrowers.

How can I tailor my collection techniques to the individual borrower?

- Use research information to help you distinguish among borrowers who represent high, low, and medium repayment problems. Schools, as well as lenders, servicers, and guaranty agencies, are collecting and analyzing information about borrowers who default and borrowers who successfully repay. (See chapter 3 for more information about school efforts to target counseling.) These models are useful at any point in the borrowing cycle.

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- Use a customer-oriented approach to collections. Treat borrowers individually and try to understand their specific circumstances. Devise default aversion strategies based on individual circumstances.

"I send holiday cards to borrowers because everyone will open a card."
— a symposium participant

The New York Higher Education Services Corporation changed the name of its collection unit to Payment Advisory Services, and is working to change the philosophy of its collectors. In Florida, **GuaranTec** now looks for staff who understand how to segment the loan portfolio and use different collection approaches for different borrowers. They know that a "one-size-fits-all" approach is inadvisable. Also, services available 24 hours a day, 7 days a week are becoming more commonly available.

The National Council of Higher Education Loan Programs (NCHELP) and Equifax have joined forces to provide three scoring tools that help lenders, servicing agencies, and guarantors to identify borrowers who may become delinquent, as well as collect on loans that go into default. Currently, these models are only available to NCHELP members.

- **The Repayment Evaluator assesses the likelihood of a borrower becoming delinquent and helps collectors to target resources to borrowers who are most likely to respond to additional efforts.**
- **The Delinquency Evaluator rank orders delinquent accounts (60 days or more past due) to show those borrowers most likely to make some repayment in the near future. Collectors can use this information to concentrate special efforts on high-risk accounts.**
- **The Default Evaluator rank orders defaulted accounts to show those borrowers most likely to make a payment in the near future. Collectors can develop different collection approaches to rehabilitate loans for different borrowers.**

Contact NCHELP memberservices@nchelp.org (202) 822-2106.

6. Use all available debt management tools.

The loan programs are complex and borrowers frequently need help knowing what to do when they get behind in payments. Determining the best solution is not always easy. A critical factor for effectively helping borrowers is the full understanding of the options. Schools, lenders, servicers, and collectors must be experts.

How can I help borrowers manage their debt?

- Make sure students know that they can receive deferments if they re-enroll. Encourage them to report to their lenders and school when they change schools.

- Set the payment due date to fit with the borrower's payday. Some lenders are more flexible on this point than others. Put information about your policy on your grace period contact materials.

- Inform borrowers about the option to set up repayment electronically. Many lenders, servicers, and collectors offer this service now. Also, interest breaks or other incentives may be offered for electronic payment. Electronic funds transfer usually reduces servicing costs, makes it easier for borrowers to pay on time, and reduces chances of default.

- Appoint an ombudsman to help borrowers resolve disputes. For example, American Student Assistance (ASA) and EdFund, have ombudsmen, as does SFA. Schools also are beginning to appoint ombudsmen. Provide information about your ombudsman service in correspondence with borrowers.

- Use forbearance for borrowers who are not able to take on a full repayment schedule, or in some cases, any payments at all. Symposium participants reported that it is often better for borrowers to make some monthly payment during forbearance because it helps to reduce their debt and maintains a habit of payment.

ASA's ombudsman helped resolve a borrower's default after the borrower had been trying for many years to get it resolved. She needed to deal with five different offices in the process, but the results were worth the effort. Contact Grace Bartini bartini@amsa.com (617) 575-4374.

- Use consolidation if it makes sense. It is not for everyone, but it can get a loan out of default. Consolidation may offer great benefits, but may also have drawbacks, so counseling is critical. Borrowers can manage debt more successfully by having one loan, one lender, and one payment. Students who consolidate while in school (Direct Loans only) receive a 6 month grace period on all the loans consolidated. All borrowers now retain the subsidy benefit on their subsidized loans. Sometimes, though, deferments or cancellation options are reduced and any unpaid interest becomes part of the principal. Finally, consolidation may raise or reduce interest rates. The key here is to consider all factors. Most consolidators offer sophisticated Web sites to help navigate this option.

In 1999, SFA hired its first Ombudsman, Debra Wiley. The Ombudsman's Office is an independent unit that facilitates informal resolution of borrowers' loan disputes, answers questions, and addresses concerns. The new office has become a valuable resource with about 7,000 requests for assistance received in the first year of operation.

- Rehabilitation gets borrowers out of default and back into repayment, and even removes the default completely from the borrower's credit record. The borrower must make 12 on-time, full monthly payments. A borrower is eligible for deferments after rehabilitation is completed. To learn more about rehabilitation, review Web sites like SFA's Collection

"Borrowers should have second chances." — *a symposium participant*

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Service at www.ed.gov/offices/OSFAP/DCS/consolidation/rehab.html. This site also provides contacts for more information.

- All schools can use NSLDS to access information about the borrower's prior loans, such as who owns the loan. Schools can then call that agency to learn more about the borrower's loans. The Privacy Act does not prohibit a lender or collector from releasing information to a school even if the student did not receive the loan at that school. If you are having problems getting specific loan information, contact your regional SFA office for help.

"Many schools incorrectly think they can only call collectors to help borrowers if the borrowers took out the loans at their school." — *a symposium participant*

- Help borrowers choose the best repayment plans for them. You can suggest the Income Contingent Repayment (ICR) plan for overburdened borrowers with lower incomes. Because students' salaries tend to be lower when they first leave school, repayment based on income may be the best option initially. Note that some proprietary schools may shy away from this approach because borrowers might be counted in their default rates.

7. Use skip tracing to find borrowers.

Many of the experts at the symposium agreed that if you can find the delinquent borrower, you have a very good chance of curing the repayment problem and avoiding default.

What can I do to locate delinquent borrowers?

- Use skip tracing to find delinquent borrowers. Stay up-to-date in the latest changes to improve this process.
- Use state tax and employment data bases to track borrowers.

The Louisiana Office of Student Financial Assistance centralized its skip tracing for default prevention and post-default. This resulted in an 88 percent found rate for default prevention accounts and 80 percent found rate for post-default accounts. Contact **Lynda Downing** ldowning@osfa.state.la.us (225) 922-1062.

The Oklahoma Guaranteed Student Loan Program uses employment security data from Oklahoma and Texas to track pre-defaulters to their place of employment. Contact **Wayne Sparks** wsparks@ogslp.org (405) 858-4358.

8. Increase coordination among all partners in the loan process.

Lenders, servicing agencies, guarantors, schools, and the Department of Education are working together to prevent defaults, but as we learned at the symposium there is more that can be done.

What can I do to increase coordination among loan partners?

- Exchange information frequently. Make sure that you are providing your partners with current data that they can use in a timely way.

- Coordinate student aid with broader social services that affect the situation of many borrowers. The **New York State Higher Education Services Corporation** has long tried to make this link on behalf of student borrowers. It is easier for state guaranty agencies to achieve this integration because it usually means working with other state agencies.

The New York State Higher Education Services Corporation's Cohort Action Report (CAR) to institutions isolates borrowers at risk of defaulting whom the Department will include in the schools next Cohort Default Rate (CDR). The CAR helps schools rank their efforts to reach out to students at risk of defaulting in a way that is most effective in reducing the cohort default rates. Contact **Lorenz M. Worden** (518) 474-2844.

USA Group has formed a council representing a cross-section of schools to mount a long-term, multi-pronged strategy for reducing loan defaults. This partnership approach is aimed at supplementing and strengthening institutional efforts to address defaults. The Default Prevention Council is sponsoring 10 initiatives, everything from focus group research and predictive modeling to a best practices manual, a speakers bureau, a life skills course, Web enhancements, and an educational awareness campaign. The best practices are scheduled to go on-line on the USAGroup website in January 2001. Contact **Tom Billard** tbillard@usagroup.com (480) 857-7792.

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Chapter 5

Changing Student Lending in America

The previous chapters of this handbook have focused on what has been occurring in student lending over the past decade. We've highlighted improvements, innovations, and techniques we can all use right now to provide better services to student borrowers. Chapter 5 has a different focus, the future. What should our plan of action for continuing to reduce loan defaults and improve services look like? What changes in laws, regulations, processes, and technology should we strive to implement?

Symposium Sets the Stage for Change

As Greg Woods opened the October 2000 Student Loan Repayment Symposium, he invited every participant to engage in an open and frank discussion about student lending in America. What would dramatically improve student lending? What do students, schools, lenders, guarantors, and servicers want changed? "Everything is up for consideration. Do not restrict your discussions to current practice, current law, or current regulations. Do not censor or limit the ideas or possibilities…"

With this mandate in mind, the symposium participants broke into five working groups and began to analyze each step of the student loan process. Discussions and debates encompassed factors related to student loan repayment that start prior to the borrower enrolling in college and followed the borrower through the entire repayment process. Imagine more than 80 experts from all areas of student lending focusing on how to reduce defaults and improve the Department of Education loan programs! We gathered many ideas, suggestions, proposals, and creative possibilities. This chapter reports the symposium participants' major themes and action items for substantially improving student loan programs. The ideas fell into three broad categories:

- Focus on outcome and performance.
- Maintain and increase Federal support.
- Simplify and streamline.

Focus on outcome and performance

Provide flexible due diligence requirements.

To reduce defaults, loan servicers, schools, and guarantors must follow the Department of Education's basic "due diligence" standards. But symposium participants focused on new technologies such as "targeting" or "profiling" student loan borrowers who are most likely to default and focusing collection activities according to these profiles. Chapters 3 and 4 address using these new targeting approaches within the constraints of today's program requirements, but participants also supported developing new regulations that would focus on outcomes and measures, rather than dictating the steps that must be performed. It became clear during the symposium that there is no single answer to reducing student loan defaults. Rather than requiring all partners to follow the same minimal regulatory requirements, participants urged the adoption of flexible provisions that do not mandate a set process. This would mean that resources currently needed to comply with the strict regulatory requirements could be redirected or "targeted" to those borrowers who need the most support. In other words, let's focus our efforts where they will be most effective in preventing defaults.

According to the **Great Lakes Higher Education Guaranty Corporation**, its default aversion pilot program saved the Federal government $110 million in reinsurance costs and associated fees in 1997-1998. Not only did it save taxpayer dollars, but it reduced costs for lenders and guaranty agencies and everyone else involved in the program. Above all, it saved thousands of borrowers from the anxiety and repercussions of going into default. Default aversion has become a matter of philosophy. Guaranty agencies should be rewarded to the degree that they achieve this goal.

The Great Lakes initiative continues under a voluntary flexible agreement (VFA) authorized by the 1998 Higher Education amendments and negotiated with the Department. Its goal is default prevention, and the financial incentives are structured to achieve that goal. The new incentives focus on results, and the agency is paid based on performance—on cure rates, rather than a retention allowance for loans that sit in default.

Contact Richard Johnston (608) 246-1401.

Establish incentives that encourage all partners to maximize repayment and reduce defaults.

The current incentive structure is "upside down" because it pays guaranty agencies to cure defaults and puts much less emphasis on preventing defaults. What we really want to do is prevent defaults. We must focus on borrowers who fall behind on their repayments and intervene before they default.

We need to look at how different partners are paid (or not paid), and who benefits, to understand why some services are provided and others are not. Default

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prevention would increase if we developed more incentives for this activity. For example, under a voluntary flexible agreement with the Great Lakes Higher Education Guaranty Corporation, financial incentives are clearly tied to default prevention. This experiment focuses on curing defaults and the agency is paid based on its performance. We should encourage all lenders, guaranty agencies, and schools to focus on default prevention and we should encourage strong partnerships in the loan repayment process. The challenge is to develop performance measures that reflect actions that are best for the borrower.

According to American Student Assistance (ASA), a guaranty agency, if all students could be spared the problems of default through a guarantor's default aversion assistance efforts, SFA's cost would drop to one-sixth the normal level, but the guarantor's gross revenue from all sources would drop by almost 50 percent. If, however, the guarantor was unsuccessful in preventing any students from defaulting, its gross revenue would increase by almost threefold while the cost to SFA would increase fourfold. **Paul Combe** combe@amsa.com (617) 728-4500.

Here are a couple of incentives that the symposium participants suggested rethinking:

- Lenders are often interested in filing for default aversion assistance as late as possible. This is because those borrowers who only miss one or two payments will likely resume their payments before defaulting. Lenders don't want to spend money unnecessarily, so they have an incentive to wait before requesting help.

- For lenders, delinquent loans often have less value than loans in default. A delinquent borrower may or may not pay a loan in full and a lender may expend significant resources to achieve that uncertain goal. However, for a loan in default, the lender is almost certain to receive most of the loan amount immediately when the default claim is filed.

Incentives for Schools and Students

Symposium participants discussed providing more incentives to schools. They cautioned that any planned reward system for schools has to be based on empirical and easy to measure performance evaluations. Some examples of potential incentives include:

- Regulatory relief to high-performing schools.

- Public recognition of successful programs.

- Share in savings realized through reduced defaults with partners.

- Paying an administrative allowance to schools based on their loan volume, so that they can enhance service during the in-school and repayment periods.

Suggestions for providing additional incentives or rewards for students to promote repayment and reduce defaults were not limited to the repayment period. Participants offered some innovative ideas that would help borrowers before they entered the traditional repayment process, as well as after they enter repayment. Examples of incentives to consider include the following:

- Give longer grace periods to those who cannot be located or who are unemployed.

- Reward students who start payment early, either while they are in school or during the grace period.

- Provide tax incentives for employers so they can offer a pretax loan payment as a fringe benefit.

Maintain and Increase Federal Support.

Symposium participants raised two major questions regarding the funding of Federal financial aid programs:

- Should borrowing ceilings in Federal loan programs be raised?

- How can the proportion of grants in the financial aid packages of students in their first year of undergraduate study be increased?

"We are seeing a significant increase in private loans." — *a symposium participant*

"They (the alternative loan provider) cut the loan check anyway, even though the school did not want them to give the student more loans."
— *a symposium participant*

"Our college has needy students, but they can't use private loans because they do not meet credit tests."
— *a symposium participant*

Alternative Loans and Federal Loan Limits.

The last time that borrowing limits were raised was in the Higher Education Amendments of 1992. Symposium participants noted that there have been substantial increases in the costs of attending colleges, universities, and career schools. They also reported an increase in the

use of private or "alternative" loans and suggested that this trend was probably a result of the shrinking ability of Federal loans to meet the increasing price of attendance.

Many participants voiced concern that students and parents who relied on alternative loans would not have the same consumer protections or legal rights that exist under the Federal loan programs. Discussions centered on two general solutions: monitoring and controlling the use of alternative loans and alternative loan providers, and raising federal loan limits.

Front-load Grants

Student default research consistently shows that the students most likely to default on their student loans are those who complete 1 year or less of an educational program. Those students with highest financial need are also likely to be academically at risk. Both factors make their pursuit of higher education extremely difficult. Many don't make it and end up with only student loan debt to show for their efforts.

In chapter 3, we encourage schools to consider the use of institutional or private funds to help these high-risk students avoid the need to borrow in their first year. But this may be difficult for many schools to accomplish, especially those with high proportions of at-risk students. Symposium participants asked that further attention be given to this funding dilemma and suggested several approaches:

- Redirect the Pell Grant money now awarded to seniors to high-need freshmen.

- Redirect the Federal reinsurance payments that are used to purchase defaulted loans to those students in the first year of study who are most likely to subsequently default.

Simplification and streamlining

Symposium participants felt that the student loan process is overly complex, and that too many difficulties emerge because there are different loan program rules and multiple partners with varying roles. Symposium participants generally supported standardizing loan program regulations, processes, and forms.

52

Loan Programs Regulations

The three major Department of Education loan programs have some dramatically different rules. For example, Perkins Loans come with a nine-month grace period, while Stafford loans have a six-month grace period. These program discrepancies confuse borrowers, make the programs more difficult to administer, and result in repayment issues. What is the likelihood that first year students understand (and will remember) that their Perkins Loan grace period is different from their Stafford loan grace period? While we have made progress in recent years in aligning the provisions of the Perkins Loan, FFEL, and Direct Loan programs, we can take further steps to reduce differences and simplify the program requirements.

Forms and Communication

We can also improve the ways we communicate with students. First, we can standardize and simplify our forms and other documents. One source of frustration to borrowers is the differences in the forms used in the Direct Loan and FFEL programs. Even when the eligibility requirements and the benefits are the same, borrowers are often told they must use the form required by an individual partner. While some actions have already been taken to develop common forms, there is still much work to be done.

Second, symposium participants stressed the need to communicate clearly and in plain language with students. How many students actually read all of the "fine print" on their loan promissory notes? And if they do, how many truly understand what they read?

By focusing on simplification and standardization, where appropriate, we can help cut the confusion students and their families now experience; reduce the workloads of our partners; and promote consistency in process and outcome.

Make it simple and easy to obtain information and assistance.

Many borrowers do not know where to go to get the information they need and it is often difficult for their schools to help them discover the best resource. Also, borrowers go into default because they do not know the names of their lenders or whom they should turn to for help with problems. For borrowers with loans from more than one lender, or who attended more than one school, the problems multiply. And in some cases, the number of partners involved

increases when the borrower leaves school.

To ensure easy access to information, symposium participants supported establishing a "single-point-of-contact service." There was no agreement on who should provide this service. Schools, guarantors, and the Department of Education were all discussed as options for providing the single point of service. The bottom line was to make it simple for borrowers and partners to know whom to contact for help with student loans.

The U.S. Department of Education's Loan Consolidation Center receives 1 million calls a year from borrowers who are shopping around for repayment information and options. Borrowers need information and they want it available 24 hours a day, 7 days a week. The Center initially underestimated the demand for 24/7 service—people actually call at 3 A.M. for help! Contact Terry Karpinski (502) 326-1902.

Harness New Technologies

Discussions on how best to consistently make information and services available focused heavily on harnessing the full potential of the Internet. Even though the Web is already being used to provide a lot of information to borrowers and financial aid professionals, symposium participants urged continued progress in this area. Ideas ranged from setting up Web sites that can be easily customized by schools to building a "full-service" Internet portal.

"Our focus groups with defaulters that rehabbed showed us that the thing they don't know is how to get help when they have a problem. They need a single place to help solve problems."
— a symposium participant

The Web is already being used to provide financial information to borrowers and financial aid professionals. Web sites are in place that can update loan amounts, show payments, present repayment options, and provide entrance and exit counseling that can be customized.

Symposium participants proposed a wider vision of a student portal to serve borrowers. Improvements might include a repayment clearinghouse that would provide a single point of contact and a single place for borrowers to pay. The clearinghouse would then disperse payments proportionately to the appropriate lenders. Loans might never lose their original designation, so that the borrower would recognize the loan even if it has been sold. Health professions and private loans would be included. The system would provide a 24-hour chat room for questions and answers. Those who need help would be identified and contacted. Perhaps employers would participate by deducting student loan payments monthly from their employees' paychecks and transferring the funds to the student lending center.

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Symposium participants believe that substantial improvements will result from constructive use of emerging technologies. A caution was raised—to make the dramatic improvements envisioned will require the cooperation of all partners throughout the nation. We must all come to the table prepared to make changes and invest in the future of student lending.

A Legacy

The three short days of the October 2000 Student Loan Repayment Symposium yielded a wealth of information in the form of best practices for promoting student loan repayment and reducing defaults. This handbook takes those best practices and makes them available to all schools, lenders, guarantors, servicers, and collectors throughout America. We have an immediate plan of action to further reduce defaults.

The symposium participants also laid the foundation for building the loan programs of the future. The themes in Chapter 5 give us a strong base. Starting from this base, we must now work together to give concrete substance and form to the ideas and creative possibilities we recorded during the symposium.

Appendix A
Annotated Bibliography

GAO Reports

GENERAL ACCOUNTING OFFICE. Views on the Default Task Force's recommendations for Reducing Default Costs in the Guaranteed Student Loan Program. Testimony before the Subcommittee on Postsecondary Education, Committee on Education and Labor, House of Representatives. William Gainer, ed. Washington, DC: General Accounting Office, 1988.

This report provides incentives and tools for Federal loan program participants to use to better manage their programs, to control defaults, and to complement recent legislative and regulatory changes. The following topics are discussed: (1) characteristics of defaulters, (2) lender risk sharing, and (3) origination fees for other loan programs.

GENERAL ACCOUNTING OFFICE. Student Loans: Selected Characteristics of Schools in Two Major Federal Loan Programs. Report to the Chairman, Committee on the Budget, House of Representatives. Washington, DC: General Accounting Office, 1997.

Most Federal support for student financial aid is distributed through student loans via the William D. Ford Federal Direct Loan Program (FDLP) and the Federal Family Education Loan Program (FFELP). This report provides information on the number of schools in each program and the distribution of student loans between the two programs; the loan default rate for schools associated with each program, and the number of schools in each program on a state-by-state basis and among the 100 largest postsecondary schools participating in these federal loan programs.

GENERAL ACCOUNTING OFFICE. Proprietary Schools. Poorer Student Outcomes at Schools That Rely More on Federal Student Aid. Report to the Chairman, Subcommittee on Human Resources, Committee on Government Reform and Oversight, House of Representatives. Washington, DC: General Accounting Office, 1997.

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56

The General Accounting Office examined the relationship between proprietary schools' performance and their reliance on funds provided under Title IV of the Higher Education Act. Data were collected through a confidential mail survey of schools from the five proprietary school accrediting agencies.

GENERAL ACCOUNTING OFFICE. Student Loans: Default Rates Need To Be Computed More Appropriately. Report to Congressional Requesters. Richard Hembra. Washington, DC: General Accounting Office, 1999.

This report examines how the Department of Education calculates the default rate for two Federal student loan programs--the Federal Family Education Loan program (FFELP) and the William D. Ford Federal Direct Loan Program (FDLP). The report focuses on three questions regarding these programs: (1) whether there has been an increase in the number of borrowers who entered repayment but subsequently received deferments or forbearances, (2) what the effect on default rates would have been if borrowers in deferment or forbearance were excluded from the default rate calculation, and (3) if the latter method of calculation had been used, would any additional schools have exceeded the 25 percent default rate threshold.

GENERAL ACCOUNTING OFFICE. Student Loans: Characteristics of Students and Default Rates at Historically Black Colleges and Universities. Report to Congressional Requesters. Washington, DC: General Accounting Office, 1998.

This report to Congress analyzes student loan default rates at historically black colleges and universities (HBCUs), focusing on student characteristics that may predict the likelihood of default. The study examined available student databases for characteristics identified by previous studies as related to level of student loan defaults.

Direct Student Loans. Analyses of Borrowers' Use of the Income Contingent Repayment Option. Report to the Chairman, Committee on Education and the Workforce, House of Representatives. Washington, DC: General Accounting Office, 1997.

This report analyzes repayment patterns for federally-supported student financial aid distributed through the William D. Ford Federal Direct Loan Program (FDLP), which includes an income-contingent repayment (ICR) plan that ties borrowers' monthly payments to income, family size, and loan amount. This report also analyzes 3-year usage of ICR in relation to three other repayment plans generally

available to FDLP borrowers: standard repayment, extended repayment, and graduated repayment.

Local Government Reports

Borrower Behavior in the Federal Family Education Loan Program. New York: New York State Higher Education Services, 1998.

This study of Federal Family Education Loan payers and defaulters in 1998 identifies the need for lenders, loan servicers, schools, and guaranty agencies to (1) create more effective programs to influence academic achievement, (2) encourage persistence in school, (3) inform and educate borrowers, and (4) respond to the labor market.

Toward the Reduction of Student Loan Defaults. New Jersey Department of Higher Education, 1998.

This report on student loan defaults in New Jersey analyzes (1) the nature of the loan default problem in New Jersey, (2) the reduction of defaults in the New Jersey Guaranteed Student Loan Program, (3) default prevention initiatives, and (4) the recommendations of the Default Task Force.

Other Reports and Studies

Dorian, James and Diane Ward. Student Loan Programs: Management and Collection. Washington, DC: National Association of College and University Business Officers, 1991.

This guide to undergraduate and graduate student loan programs focuses primarily on program administration and management in the context of student loan repayment and collection. By incorporating regulatory requirements with practical suggestions on managing student loan programs, the book provides a framework and a guide for those who are responsible for administering student loan portfolios at colleges and universities.

Cross, Dolores and Arlene Oblinsky. "Student Loan Payers and Defaulters." Paper presented at the Annual Meeting of the Association for the Study of Higher Education, February 20–23, 1984.

This study examines the characteristics of student loan borrowers and differences between those who repay their loans and those who default. Data are based on the New York State Higher Education Services Corporation Guaranteed Student

Loan database and responses to a questionnaire mailed in the spring of 1984 to a sample of New York State student loan borrowers.

Dynarski, Mark. Analysis of Factors Related to Default. New Jersey, 1991.

This paper analyzes the factors associated with student loan default in the Guaranteed Student Loan (GSL) program for higher education. The paper provides an overview of the National Postsecondary Student Aid Study (NPSAS) Student Loan Recipient Survey, and, using data from the survey, presents a descriptive analysis of student loan recipients and of default rates, broken down by various demographic, socioeconomic, and educational-level groupings.

Flint, Thomas. "The Federal Student Loan Default Cohort: A Case Study." Journal of Student Financial Aid. Spring 1994, 13-30.

This study of 180 defaulters and 907 nondefaulters on Federal loans at a private 2-year college found that withdrawal from college, gender, race, age, high school rank, and college grads were significantly correlated with default status.

Flint, Thomas. "The Influence of Job Prospects on Students' Debt Levels of Traditional and Adult Undergraduates." Journal of Student Financial Aid. Spring 1998, 7-28.

This study investigates academic, social, attitudinal, and behavioral influences on student borrowing, using a sample from a national longitudinal study, with attention to labor market data, in predicting student borrowing behavior. Results show substantial differences between dependent and independent students in attitudes toward loans and debt levels.

Flint, Thomas. "Predicting Student Loan Defaults." Journal of Higher Education. May-June 1997, 322-354.

This study of 1,117 borrowers from 510 institutions indicates that beside certain precollege traits and high grade point average, postcollege employment congruent with the undergraduate major reduced defaults.

Fossey, Richard and Mark Bateman, eds. Condemning Students to Debt: College Loans and Public Policy. New York: Columbia Teachers College Press, 1998.

This book focuses on five major issues relating to the effects of the Federal student loan program: (1) That expanding access to postsecondary education is in the national interest, (2) the inconsistency in student loan policy, (3) increasing federal regulation of higher education, (4) rising costs that are making higher education inaccessible to more families, and (5) that some student borrowers do not benefit from student loans.

Fredricks, J. and Bruce Szelest. "Individual and Campus Characteristics Associated with Student Loan Default." Research in Higher Education. February 1995, 41-72.

This study analyzes data from three national databases to investigate the relationship between college student characteristics and college characteristics and patterns in loan repayment and default. The analysis suggests that repayment/default behavior can be predicted by precollege, college, and postcollege characteristics of individual borrowers but not by college type.

Ginsberg, Edward and Susan Ginsberg. "Student Loan Default." Phi Delta Kappan. March1989, 557-558.

This analysis reports that most college students who default on Federal loans come from low-income families and drop out of school within a year. Borrowers from more affluent families take out bigger loans, but stay in school longer and are likely to secure steady employment and repay their loans.

Greene, Laura. "An Economic Analysis of Student Loan Default." Educational Evaluation and Policy Analysis. Spring 1989, 61-68.

This analysis of data on National Direct Student Loan Program borrowers at the University of North Carolina illustrates the use of a discrimination function analysis model and an alternative model identifying characteristics of borrowers who repay and borrowers who default. The alternative model—the Tobit technique—includes data on the magnitude of the default.

Lee, John. Study of Guaranteed Student Loan Default Rates. Washington, DC, 1982.

This study presents data on Guaranteed Student Loan (GSL) program defaults from 1965 to early 1981, as well as characteristics of GSL lenders. Default rate data are provided by state agency, year of birth of loan recipient, last academic

year, year of last loan, elapsed time between last loan and current status, institutional type and control, and institutional size. Information is presented on the percentage of loans in default, the average size of loans in default, and the percentage of dollars in default.

Thobe, Tina and Barbara DeLuca." A Model for Predicting Perkins Loan Defaulters." Journal of Student Financial Aid. Winter 1997, 31-43.

This study analyzed characteristics of 392 University of Dayton (Ohio) students borrowing through the Perkins Loan Program to discover their relative impact on loan default behavior, and developed a model to help predict individual potential defaulters.

Ward, Diane. "California State University Loan Defaulters' Characteristics." Journal of Student Financial Aid Fall 1993, 29-41.

Based on a survey of former California State University students who repaid (224) or defaulted on (128) loans, an analysis found high levels of significance in postsecondary outcome variables (graduation, employment, and income patterns), institutional practices and characteristics, student background characteristics, and understanding of rights and responsibilities.

Webster, Jeff. "Student Loan Defaults in Texas: Yesterday, Today, Tomorrow.' Austin, Texas: Texas Guaranteed Student Loan Corporation, 1998.

This report updates recommendations made in a similar 1988 report and clarifies the latest research on defaults in Texas. The report revisits the initial initiative and makes several new recommendations, addressing issues such as (1) administrative practices, (2) preloan counseling and early financial planning, (3) state and national legislative initiatives, (4) debt management, and (5) loan servicing.

US Department of Education
Office of Student Financial Assistance